**REPORT OF THE PORTFOLIO COMMITTEE ON PUBLIC ENTERPRISES ON BUDGET VOTE 10: PUBLIC ENTERPRISES, AND ON THE STRATEGIC PLAN AND ANNUAL PERFORMANCE PLAN FOR 2022/23 OF THE DEPARTMENT OF PUBLIC ENTERPRISES, DATED 18 MAY 2022**

The Portfolio Committee on Public Enterprises, having received a briefing from the Department of Public Enterprises on the Strategic Plan, Annual Performance Plan and on the Budget Vote on 11 May 2022, reports as follows:

**1. Introduction**

Guided by the Rules of Parliament, promulgated in terms of the Constitution, the Portfolio Committee on Public Enterprises plays an oversight role on the Ministry, Department of Public Enterprises and State-Owned Companies.

The Committee has to scrutinise the Strategic Plan and Annual Performance Plan of the Department and its entities in order to see if the funds requested are aligned to the objectives as stated in the respective Strategic Plan and Annual Performance Plan documents**.**

**1.1 Background**

The State has a developmental role to play and uses state-owned companies as the implementation tools for fulfilling this role. The developmental role should support a number of economic and development goals, including delivery of strategic infrastructure that will unlock growth potential in the country; support of the wider economy and marginal business sectors and support of economic recovery and reconstruction where needed. The State requires strategic, organizational and operational capacity to play its developmental role. State-owned companies (SOCs) act as the extension of the state’s capabilities in this regard, and act as the implementing agents for execution of projects assigned in line with national priorities.

**2. Annual Performance Plan of the Department of Public Enterprises**

The Department of Public Enterprises presented an Annual Performance Plan for 2022/23 financial year to the Committee. The Department described the overarching policy and strategic direction and priorities of Government, as articulated by the 2022 State of the Nation Address by the President, the National Development Plan, the Presidential Review Committee on State Owned Enterprises, and other pronouncements of Government on the repositioning and repurposing of the SOCs.

The Department’s allocation is a product of a budget process of the National Treasury, which starts in July of a prior year and culminates in the Medium Term Budget Policy Statement (MTBPS) in November of the prior year, and the confirmation of allocations in the February Minister of Finance’ Budget Statement (Estimates of National Expenditure), with a three-year view, that are then outlined in the Department’s Annual Performance Plans.

The Department in the Annual Performance Plan includes the priorities set in the Medium-Term Strategic Framework, which are to be implemented by either the Department directly or indirectly through its SOCs.

**2.1 Mandate of the Department of Public Enterprises**

The Department of Public Enterprises (DPE or the Department) undertakes shareholder oversight for Government and is currently instructed by the Executive Authority to oversee strategic State-Owned Companies (SOCs) within its portfolio of seven (7) entities. Currently, the DPE does not have a legislated constitutional mandate. The DPE is recognised as a Government Department through Proclamation No. 82 of 1999. It has an agreed and assigned dual responsibility to:

* Direct and support improvements in the financial, commercial and operational performance of the SOCs and their contribution to the South African economy; and
* Make a positive contribution to the transformation of the South African economy in line with the National Development Plan (NDP) to create a better and sustainable economic environment for all South Africans.

The DPE aims to drive investment, productivity and transformation in the Department’s portfolio of state-owned companies (SOC), their customers and suppliers to unlock growth, drive industrialisation, create jobs and develop skills. The Department’s portfolio has seven state-owned companies namely; Alexkor, Denel, Eskom, South African Forestry Company (SAFCOL), South African Airways (SAA), South African Express Airways (SAX), and Transnet.

The vision of the Department is to create an enabling environment in which SOCs add real economic value by focussing on operational excellence, commercial viability and fiscal prudence. This will drive developmental objectives, industrialisation, job creation and skills development.

The mission of the Department is to provide clear strategic direction and oversight to the Department’s SOCs, seeking to ensure that the SOCs:

* Are financially sustainable, adequately funded and operationally robust;
* Have operating models that keep pace with global development and innovation;
* Provide reliable, high-quality and cost-effective services and infrastructure to industry and our citizens;
* Secure investment and funding for strategic industrial development; and
* Align with national developmental objectives.

The Department’s overall mandate is to ensure that the SOC within its portfolio are directed to serve Government’s strategic objectives as outlined in the NDP and other policies of sector policy departments. The Department does not directly execute programmes but seeks to leverage the state ownership in the economy to support the delivery of key outcomes outlined in the NDP and the Medium Term Strategic Framework (MTSF).

**2.2 Strategic Objectives of the Department**

The Department adopted a new Strategic Plan in line with the National Development Plan (NDP) and Medium-Term Strategic Framework (MTSF) in response to internal and external environment.

The strategy seeks to respond to prevailing macro-economic challenges and to best utilise scarce resources through creating of maximum efficiencies and effectiveness in its execution. The department has a significant role to play in the South African economy and is, albeit indirectly, a key enabler of economic stability and growth.

It is the department’s intention to progressively reposition the department from a largely compliance-driven focus to being a major contributor to the infrastructure development and reindustrialisation of the economy through the capacity that exists within its portfolio of SOCs. This repositioning also re-emphasises the leading role that the DPE must take to set standards that guide the oversight function across Government.

Several of the SOCs under the department’s oversight have financial challenges, due to not only operational inadequacies and the legacy of state capture, but also the increasingly difficult and complex challenges of sustainably balancing financial and commercial viability and the needs of the markets they serve, with meeting the socio-economic commitments of the NDP.

In executing this function, the department has identified three programmes in its Annual Performance Plan (APP) which are the following: Administration and Corporate Management, SOCs Governance Assurance and Performance, and Business Enhancement and Industrialisation.

The Administration and Corporate Management programme has prioritised one outcome, namely, strengthen the governance system of SOCs and promote institutional alignment in the execution of the oversight function.

The SOC Governance Assurance and Performance in 2022/23 has identified the following outcomes; strengthen the governance system of SOCs and promote institutional alignment in the execution of oversight function, and improved governance and accountability. The indicators include annual assessment of independent board performance evaluation framework, development and implementation of SOCs Risk Integrity management framework, Government Shareholder Management Bill adopted into law by 2023 and review previously undertaken forensic audits and ensure recommendations are implemented including (State Capture Commission). The sub programme on financial assessment and investment support has an outcome on improved financial sustainability of SOCs with the following outputs: outlook on SOC financial position, alignment of SOC plans to key priorities outlined in SIS and SHC, monitor the implementation of SOCs external auditor’s audit findings and payment of SOCs proportion of earnings.

The Business Enhancement and Industrialisation programme is intended to provide sector oversight of SOCs by advancing industrialisation, transformation, intergovernmental relations and international collaboration services; and support the Shareholder to strategically position and enhance the operations of SOCs.

The outcomes of the programme are the following: Increase the contribution of SOCs to support the transformation of the South African economy, support the development of small, medium, and micro enterprises (SMMEs), economic transformation and job creation, position SOCs to support the reindustrialisation of the SA economy and position.

The outputs for this programme includes; increase percentage spend on locally manufactured goods and services, improved SOCs contribution to the transformation agenda, socio-economic development of SOCs, improved spend on enterprise development a minimum % of leviable amount (excluding statutory skills development) on essential skills development, adaptation to climate change impact, monitor implementation of SOCs climate change response and plans to reduce emissions and increase resilience to climate change impact.

**2.3 Policy Priorities for 2022/23**

The Department of Public Enterprises oversees seven state-owned companies, namely Alexkor, Denel, the South African Forestry Company (SAFCOL), Eskom, South African Airways (SAA), South African Express Airways (SAX) and Transnet. The President made the following pronouncements in his State of the Nation address in February 2022.

Government priorities for 2022/23 are:

* overcoming the COVID-19 pandemic,
* a massive rollout of infrastructure,
* a substantial increase in local production,
* an employment stimulus to create jobs and support livelihoods,
* the rapid expansion of our energy generation capacity.

The priorities for the Department for the Medium Term Expenditure Framework period are the following:

a) **Oversight model:** Develop an enhanced and internationally benchmarked SOC oversight model.

b) **Private Sector Participation:** Mobilise the private sector to stimulate capital investment.

c) **Research-based Restructuring of SOCs:** DPE research capacity needs to be improved to attain the goal of developing world class SOCs.

d) **Restructuring office:** The restructuring of SOCs require skills not found in the public sector. This office will then be staffed by professionals sourced through partnerships with the private sector either through sourcing contracts or through initiatives such as *Thuma Mina*.

e) **Innovative Funding Solutions:** Development of strategies on management of existing capital and attraction of new capital to fund the enormous infrastructure and industrial development effort required of Government.

f) **SOC Leadership model:** Development of dedicated leadership development programmes.

g) **Corruption and Malfeasance:** An internal unit will be established to ensure that historical malfeasance is correctly addressed.

h) **Performance tracking solution:** In order to obtain reliable and immediate data on performance on SOCs, the DPE will ensure that enabling infrastructure is developed.

i) **Innovative Empowerment and Community Development Solutions:** The SOCs’ approach to Corporate Social Investment (CSI) and empowerment needs to be reviewed and aligned with the developmental needs of communities and comply with environmental regulations.

j) **Localisation and Industrialisation:** The buying power of the SOCs will be used to ensure the various procurement leverage programmes of government are utilised to ensure localisation of critical industrial capabilities.

**3. Programmes of the Department**

**3.1 Programme 1: Administration and Corporate Management**

The purpose of this programme is to provide strategic management and support services to

the Department.

The programme includes the Office of the Director-General/Management. The programme is currently made up of the following sub-programmes: Management; Security and Facilities Management; Information Management and Technology; Office of the Chief Financial Officer; Human Resources; Communications; Strategic Management; and Internal Audit. The Department’s core functions require significant administrative support, and a substantial portion of the budget is in the Administration programme, an amount of R166.3 million for 2022/23, which has cross-cutting sub-programmes providing for intergovernmental and international relations, strategic planning, monitoring and evaluation, and communications. The majority of the budget, R97.2 million, is for compensation of employees, while R65.3 million is for goods and services. The balance of R3.9 million is for machinery and equipment.

The spending focus over the medium term will be on supporting the Department to play its

oversight role on SOCs by providing administrative support services to the Department. Over the medium term, the majority of the allocation is within compensation of employees, which will provide technical and administrative support to the Department.

The programme has six output indicators, up from the four output indicators in the previous

year. The indicators are:

* Percentage of vacancy rate reduced;

• Percentage of performance management achieved as per individual performance agreements linked to Annual Performance Plan (APP) and Annual Operating Plan (AOP);

• Percentage on improvement of ICT Infrastructure services and 90 per cent of systems availability maintained;

• Percentage on population of ICT structure with new capabilities;

• Percentage on implementation of signed co-operation agreement to reduce SOCs

 infrastructure vandalism through signing co-operation with stakeholders;

 • Percentage on media public perception survey achieved.

**3.2 Programme 2: SOCs Governance Assurance and Performance**

The purpose of this programme is to provide and enforce SOCs’ governance, legal assurance, financial and non-financial performance monitoring, evaluation and reporting systems, in support of the Shareholder, and to ensure alignment with Government’s priorities.

Over the medium term, the programme will ensure the effective shareholder oversight of state owned companies by:

• Providing governance and legal systems;

• Developing and maintaining shareholder risk profiles and mitigating strategies; and

• Monitoring, evaluating and reporting on the financial and non-financial performance, and proposing intervention measures when required.

The programme has the smallest budget of the three programmes of the Department,

amounting to R60.7 million for the 2021/22 financial year. The majority of the budget

goes to compensation of employees of R31.7 million, with the balance going to goods

and services amounting to R29 million.

The Sub-programmes include:

The **Managemen**t sub-programme comprises the office of the Deputy Director General, which provides strategic leadership and management of the programme personnel.

The sub-programme **Legal** provides external legal services and oversight support to sector teams. This entails providing legal services, including transaction and contract management support to the Department, as well as work specifically related to sector teams’ oversight of commercial activities of state-owned companies within their portfolios.

The sub-programme **Governance** develops, monitors and advises on legislative, corporate governance and shareholder management systems for the Department and its portfolio of state-owned companies. Risk and compliance management is a component of this unit, which is responsible for developing and implementing risk and compliance with laws and regulations.

**3.3 Programme 3: Business Enhancement, Transformation and Industrialisation**

The purpose of the programme is to provide sector oversight to ensure that state-owned companies contribute to the advancement of industrialisation, transformation, intergovernmental relations and international collaboration services. The programme will also support the shareholder in strategically positioning and enhancing the operations of state-owned companies.

Through this programme, the Department will contribute to the enhancement of the performance of SOCs on an ongoing basis by:

* Conducting reviews, research and modelling of pipeline and new business enhancement opportunities within SOCs;
* Assessing operations of SOCs and developing mitigation instruments in conjunction with policy departments, regulatory bodies and industry; and
* Conducting research, modelling job creation and transforming instruments for SOCs to inform compact alignment imperatives, promote SOCs’ contribution to inclusive economic growth, unlock bottlenecks affecting SOCs and inform evidence-based policy formulation.

The budget for the programme amounts to R23.7 billion for the 2022/23 financial year, mostly due to R23.6 billion appropriated for the payment for financial assets. Eskom is to receive an additional R21.9 billion to provide financial support to assist with their debt-service obligations, while SAA will receive R1.8 billion to settle government guaranteed debt.

This programme develops and coordinates the implementation of SOCs’ strategies to leverage localisation programmes; provide intergovernmental coordination and support to programmes and SOCs in relation to economic development programmes, as agreed with provincial and local governments. It will also maintain a register of commitments made by SOCs and lobbies for the implementation of special programmes focusing on skills development, transformation and the youth.

The sub-programme has three indicators, down from the seven performance indicators in the previous year. The sub-programme has the following indicators:

• Number of Gender Responsive Plans approved and implemented;

• Percentage on SOC public procurement spent on Women-Owned Business;

• SOCs Local content verification framework developed and tested.

The sub-programme **Energy Resources** exercises shareholder oversight over Eskom, Alexkor and the South African Forestry Company (SAFCOL). The sub-programme has nine indicators, up from the seven performance targets in the previous year. The Department will continue to monitor SAFCOL’s Timbadola re-investment project, Alexkor’s optimal operating structure, Eskom’s infrastructure programme, performance of its generation fleet and implementation of the Eskom Road Map for reformed electricity supply industry. The sub-programme has the following indicators:

* Signed shareholder compact per year (Eskom; Alexkor; SAFCOL);
* Increased energy availability factor;
* Eskom planned capacity adherence (Infrastructure/Build Programme)
* Increased electricity reserve margin by 15 per cent by 2024;
* Eskom’s roadmap for reformed electricity supply industry implemented (unbundling process; Transmission, Generation and Distribution);
* Number of reports on the maintenance of energy levels;
* Number of progress reports on Additional 1 000MW commissioned by 2024 produced.

The sub-programme **Transport and Defence** exercises shareholder oversight over Transnet, South African Airways, South African Express Airways and Denel. The sub-programme has eight output indicators, up on the six performance indicators in the previous financial year. The sub-programme has the following indicators:

* Signed shareholder compacts per year (Transnet);
* Implementation of the agreed decision of government on the structure and functions of TNPA;
* Percentage increase of rail friendly commodities moved from road to rail by Transnet Freight Rail (6.2 million tons by 2023/24)
* Number of private sector participation (PSP) transactions in ports and rail identified;
* Framework for the Shareholder Oversight Model for SOCs with a minority Government Shareholding developed. (SAA)
* Number of reports on mapping of industrial defence capabilities and options for Denel divisions;
* Number of diagnostic reports on the root causes to the challenges of the Denel Badger/Hoefyster contract and lessons learnt;
* Number of quarterly reports update on the implementation of the Defence and Aerospace Masterplan.

The sub-programme **Research and Economic Modelling** conducts cost-benefit analysis reviews on business enhancement and transformation initiatives, and develops economic sustainability models for proposed work packages and projects. The sub-programme has 2 output indicators, down from the 3 performance indicators in the previous year. The sub-programme has the following two indicators:

* Number of reports on the implementation of “Just” energy Transition Framework;
* Number of Industry-specific research working papers conducted.

**4. Budget**

 Over the medium term, the Department will focus on strengthening its oversight capacity and ensuring that SOCs under its authority are contributing to investment in key infrastructure. Overall, the Department’s budget decreases by 34.03 per cent in nominal terms from R36.3 billion in 2021/22 to R23.9 billion in 2022/23.

Table 1 below gives the department’s medium term allocations with the real and nominal increase over the current financial year.

**Table 1. Estimate of Expenditure over the 2022 medium term**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | **Nominal Rand change** | **Real Rand change** | **Nominal % change** | **Real % change** |
| **R million** | **2021/22** | **2022/23** | **2023/24** | **2024/25** | **2021/22-2022/23** | **2021/22-2022/23** |
| **Programme 1: Administration** |  150,1 |  166,3 |  168,7 |  176,2 |  16,2 |  9,0 | 10,79 per cent | 6,02 per cent |
| **Programme 2: State-Owned Companies Governance Assurance and Performance** |  59,9 |  60,7 |  65,6 |  68,6 |  0,8 | - 1,8 | 1,34 per cent | -3,03 per cent |
| **Programme 3: Business Enhancement, Transformation and Industrialisation** |  36 064,8 |  23 701,9 |  63,3 |  66,1 | - 12 362,9 | - 13 383,6 | -34,28 per cent | -37,11 per cent |
| **TOTAL** |  **36 274,8** |  **23 928,9** |  **297,6** |  **310,9** | **- 12 345,9** | **- 13 376,3** | **-34,03 per cent** | **-36,87 per cent** |

**Source:** National Treasury (2022b)

* **Programme 1** accounts for the second largest allocation of the Department’s overall budget in 2022/23 with a total allocation of R166,3 million or 0,7 per cent of the total budget. Programme 1: Administration, has a nominal increase of 10.79 per cent in 2022/23, with a real increase of 6.02 per cent.
* **Programme 2:** State-Owned Companies Governance Assurance and Performance receive the smallest allocation in 2022/23 will a total allocation of R60,7 million or 0,3 per cent of the total budget. The programme increases by 1.34 per cent nominally in 2022/23 and decreased in real terms by 3.03 per cent.
* **Programme 3**: Business Enhancement, Transformation and Industrialisation accounts for the largest allocation of the budget, approximately R23,7 billion or 99 per cent of the total budget. Programme 3 allocations has decreased by 34.03 per cent due to the inflated 2021/22 budget due to the R38.9 billion allocations to Eskom, SAA and Denel for payments for financial assets.

Compensation of employees amounts to R177.5 million for 2022/23, an increase of 18.5 per cent on R159.0 million in 2021/22, which constitutes the Department’s largest administrative cost driver. Goods and services amounts to R113.1 million, an increase of 3.5 per cent on R109.6 million in 2021/22. Of the goods and services budget, the use of consultants constitutes 37.7 per cent while travel and subsistence accounts for 10.3 per cent of the goods and services budget for 2022/23. Travel and subsistence decreases from R25.1 million in 2021/22 to R11.7 million in 2022/23; while consultants increases from R33.1 million in 2021/22 to R42.6 million in 2022/23.

**4.1** **Programme 1: Administration**

Over the medium term, the majority of the allocation is within programme 1 is the compensation of employees, which will provide technical and administrative support to the Department. The overall budget for the programme increases by 16.2 per cent from R150.1 million in 2021/22 to R166.3 million in 2022/23. Expenditure on compensation of employees constitutes 58.5 per cent of the programme budget for the 2022/23 financial year. Over the medium term, expenditure on compensation of employees grows by 9.4 per cent from R79.1 million in 2021/22 to R103.5 million in 2024/25. The number of personnel is expected to increase from 106 employees to 125 employees over the medium term.

Goods and services constitute 39.3 per cent of the budget for the 2022/23 financial year. Goods and services decreases from R67.0 million in 2021/22 to R65.3 million in 2022/23, a decrease of 2,5 per cent. Operating leases and consultants make up the largest portion of goods and services for the 2022/23 financial year, constituting 19.1 per cent and 15.8 per cent respectively.

## 4.2 Programme 2: State-Owned Companies Governance Assurance and Performance

The purpose of this programme is to provide state-owned companies’ governance, legal assurance, financial and non-financial performance monitoring, evaluation and reporting systems, in support of the shareholder to ensure alignment with government priorities.

The sub-programme Management constitutes the smallest unit of the programme at 4.7 per cent of the budget for the 2022/23 financial year. The largest sub-programme is Governance at 45.3 per cent of the budget followed by the Legal sub-programme at 29.5 per cent and Financial Assessment and Investment Support at 20.3 per cent of the budget. The overall budget for the programme increases by 1.3 per cent from R59.9 million in 2021/22 to R60.7 million in 2022/23.

For the 2022/23 financial year, 52.2 per cent of the programme 2 budget is allocated for spending on compensation of employees, with the number of personnel expected to decrease from 36 employees in 2021/22 to 35 employees. Compensation of employees decreases by 1.2 per cent, from R32.1 million in 2021/22 to R31.7 million in 2022/23. Goods and services constitutes 47.8 per cent and increases from R27.8 million in 2021/22 to R29.0 million in 2022/23, an increase of 4.3 per cent. Consultants constitutes 62.4 per cent while legal services constitute 16.8 per cent of the goods and services budget. Expenditure on consultants is expected to increase by 4.6 per cent from R17.3 million in 2021/22 to R18.1 million in 2022/23. Legal services increase by 59.4 per cent, and increases from R6.4 million in 2021/22 to R10.2 million in 2022/23.

**4.3 Programme 3: Business Enhancement, Transformation and Industrialisation**

The purpose of the programme is to provide sector oversight to ensure that state-owned companies contribute to the advancement of industrialisation, transformation, intergovernmental relations and international collaboration services. The programme will also support the shareholder in strategically positioning and enhancing the operations of state-owned companies.

The programme’s budget decreases by 34.3 per cent from R36.1 billion in 2021/22 to
R23.7 billion in 2022/23. The decrease is due to the Department reducing transfers to the SOCs, specifically for Eskom and SAA. This is discussed further under Section 5.

The sub-programme **Energy Resources** exercises shareholder oversight over Eskom, Alexkor and the South African Forestry Company (SAFCOL). The budget for Energy Resources is expected to decrease by 30.9 per cent from R31.7 billion in 2021/22 to R21.9 billion in 2022/23. The sub-programme constitutes 92.3 per cent of the programme’s budget. Over the next three financial years until 2024/25, the programme grows negatively by 94 per cent due to reduction in transfers to Eskom.

The sub-programme **Research and Economic Modelling** conducts cost benefit analysis reviews on business enhancement and transformation initiatives, and develops economic sustainability models for proposed work packages and projects. The budget decreases from R10.7 million in 2021/22 to R8.8 million in 2022/23, a decrease of 17.8 per cent in nominal terms.

The sub-programme **Transport and Defence** exercises shareholder oversight over Transnet, South African Airways, South African Express Airways and Denel. The budget for the sub-programme constitutes 7.6 per cent of the programme budget for the 2022/23 financial year. The sub-programme budget decreased in nominal terms by 58.6 per cent from R4.3 billion in 2021/22 to R1.8 billion in 2022/23. This is mainly due to decreased transfers to SAA and Denel.

The sub-programme **Business Enhancement Services** develops and coordinates the implementation of SOCs’ strategies to leverage localisation programmes; provide intergovernmental coordination and support to programmes and SOCs in relation to economic development programmes, as agreed with provincial and local governments; and maintains a register of commitments made by SOCs and lobbies for the implementation of special programmes focusing on skills development, transformation and the youth. The sub-programme’s budget increases in nominal terms by 16.6 per cent from
R27.7 million in 2021/22 to R32.3 million in 2022/23.

Compensation of employees increases by 1.7 per cent from R47.8 million in 2021/22 to
R48.6 million in 2022/23. Personnel in the programme is projected to remain stable from 2021/22 to 2022/23 at 58 employees. Goods and services is projected to increase by 27.0 per cent from R14.8 million in 2021/22 to R18.8 million in 2022/23. Consultants increase by 257.5 per cent from R4.0 million in 2021/22 to R14.3 million in 2022/23. Consultants accounts for 76.1 per cent of the goods and services budget for the 2022/23 financial year.

Payments for financial assets constitutes 99.7 per cent of the programmes budget. Payments for financial assets decreases by 34.3 per cent from R36.0 billion in 2021/22 to R23.6 billion in 2022/23. These payments for financial assets include amounts of R21.9 billion for Eskom and R1.8 billion for South African Airways in the 2022/23 financial year.

**4.4 Report of Auditor-General on the Annual Performance Plan of the Department of Public Enterprises for 2021/22 financial year**

By the time of the consideration of the annual performance plan and budget of the Department of Public Enterprises, the Auditor-General had not yet completed the auditing of the annual performance plans of the department and its state-owned companies.

**5. State-Owned Companies’ Performance**

State-owned companies are experiencing financial and operational challenges that have affected their performance. The following section deals with their performance and future plans.

**5.1 Alexkor**

Alexkor was established in terms of the Alexkor Limited Act (1992) to mine marine and land diamonds in Alexander Bay, Northern Cape. The company holds a 51 per cent share in the Alexkor Richtersveld Mining Company Pooling and Sharing Joint Venture. Over the medium term, the company will focus on expanding its diamond‐mining operations. Although Alexkor mined more than 28 000 carats per year in 2019/20 and 2020/21, production did not increase year‐on‐year. Due to a lack of geological information and the relatively low carat value of its diamonds, particularly land‐based ones, the joint venture struggled to attract investment. To increase revenue, Alexkor acquired a licence to sell and market diamonds through the State Diamond Trader in November 2021. The department’s immediate focus is to review Alexkor’s operations to ensure it becomes sustainable. A service provider is expected to be appointed by the beginning of 2022/23 to help determine an optimal operating model for the state’s mineral assets. Alexkor generated unaudited revenue of R158 million in 2020/21, down 7 per cent from the R170 million it generated in 2019/20. This was mainly due to the suspension of operations in the first quarter of 2020/21 to comply with COVID‐19 lockdown restrictions. The company downsized operations in 2020/21, resulting in retrenchments and resignations. As a result, it reported an unaudited after‐tax profit of R34 million in 2020/21 compared to the R109 million loss it incurred in 2019/20. Alexkor’s liquidity has improved due to the settlement of significant obligations and reduced personnel costs. The company is solvent and does not have long‐term debt, which has reduced its risk assessment as a going concern.

**5.2 Denel**

Denel was incorporated as a private company in 1992 in terms of the Companies Act (1973), with the South African government as its sole shareholder. It operates in the military aerospace and landward defence environment and provides strategic defence equipment. The company’s broad focus over the medium term will be on restructuring, which entails optimising its cost structure and implementing its new operating business model to better position it for future sustainability. The new operating model reduces Denel’s structure from 6 core business units to 3 – engineering, manufacturing, and maintenance and overhaul. This change will not only result in decreased expenditure, but in the improved allocation of critical resources. It will also require that the company accelerate its disposal of non‐core assets and businesses, improve supply chain policies, and align its IT infrastructure with its new organisational structure. Denel generated revenue of about R2.8 billion in 2020/21 – a similar amount to 2019/20. The stagnant growth

in revenue, generated mainly through the maintenance and overhaul unit, was largely a result of liquidity challenges that constrained operations and affected sales. The entity’s 2021/22 balance sheet shows that it continues to face liquidity and solvency challenges. It does not have sufficient cash to meet operational requirements, including the payment of salaries and suppliers. This has resulted in core business units operating at an average capacity of less than 30 per cent. Denel has lost experienced personnel with critical skills, which threatens the sustainability of various defence industrial capabilities. An allocation of R3 billion by government in 2021/22 enabled Denel to settle its guaranteed debt. This will support its equity position and materially reduce its interest obligations. However, the company’s poor liquidity means that it is unable to adequately fund operational obligations, which limits its ability to fulfil contracts that generate cash flow.

**5.3 Eskom**

Eskom is mandated to generate, transmit and distribute electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. Significant progress has been made on the unbundling of 3 subsidiaries: transmission, generation and distribution. The transmission division was corporatised in 2021/22, and the generation and distribution divisions are expected to be corporatised in 2022/23. At 64 per cent, Eskom’s generation performance was poor in 2021/22, mainly due to a 27 per cent incidence of unplanned plant breakdowns. To improve maintenance at power stations and ensure the availability of power, the generation recovery plan focuses on detecting defects; reducing trips and full load losses; and accelerating

the return of serviced units following long‐term forced outages, partial load losses and boiler tube leaks, particularly at the Medupi and Kusile power stations. Medupi’s last unit was commercialised in July 2021, and 3 of the 6 units at Kusile have been completed. As part of transitioning from coal to renewable energy technologies, in line with government’s energy policy, Eskom is in the process of decommissioning old coal‐fired power stations. Komati power station, which will be decommissioned in 2022, will be the first pilot site for this transition.

Eskom’s revenue improved from R199.5 billion in 2019/20 to R204.3 billion in 2020/21, driven mainly by a tariff increase of 8.8 per cent, and the company’s loss decreased from R20.8 billion in 2019/20 to R18.9 billion in 2020/21. However, its financial position remains weak, and the entity is not able to generate enough cash from operations to cover debt obligations when they become due. As at 30 September 2021, Eskom’s debt amounted to R392 billion, while municipal arrears amounted to R40.9 billion. Given this weak financial position, government has committed to providing financial support to assist with the company’s debt‐service obligations,

with an additional R21.9 billion allocated for this in 2022/23.

**5.4 South African Airways**

South African Airways operates a full‐service network in the international, regional and domestic markets. The airline is responsible for promoting air links with South Africa’s key business, trading and tourism markets across the world, and contributing to key domestic air linkages. The airline was placed under business rescue in December 2019 and the approved business rescue plan was published in August 2020. To implement the plan, R10.5 billion was allocated in the 2020 second adjustments budget. The restructured airline resumed operations in September 2021, operating domestically and regionally. However, the fourth wave of the COVID‐19 pandemic negatively affected its restart and ramp‐up plan as some destinations closed borders to South African carriers. Because the airline was in business rescue between

December 2019 and April 2021, it did not generate any revenue from scheduled flights during this period, only a few charter flights.

The airline’s total guaranteed debt was R16.4 billion. To settle it, government paid R10.2 billion in 2020/21, R4.3 billion in 2021/22, and is expected to pay the remaining R1.8 billion in the second quarter of 2022/23. The airline is in the process of disposing of some non‐core assets as required by the appropriation conditions. Government is in the process of concluding the sale of its majority shareholding in the airline to a strategic equity partner that is expected to bring in the funding and skills required to strengthen its balance sheet and improve operations. This partnership is expected to be finalised by the beginning of 2022/23. Over the medium term, the

airline will focus on improving its operations as international flights resume.

**5.5 South African Express Airways**

South African Express Airways has experienced severe operational and financial challenges for several years, and despite financial support from government, has been unable to recover. The airline was placed under business rescue in February 2020 but was unable to restructure, leading to it being placed under provisional liquidation in April 2020. By October 2020, the process of receiving expressions of interest had commenced. It was expected that the airline will be sold in the fourth quarter of 2021/22.

**5.6 South African Forestry Company**

The South African Forestry Company was established in 1992 in terms of the Management of State Forests Act (1992). It is mandated to ensure the sustainable management of plantation forests, increase downstream timber processing, and play a catalytic role in rural economic development and transformation. Over the medium term, the company will continue seeking viable partnerships to diversify its product offering by increasing its production of new timber products and investing in the tourism sector. Furthermore, the company plans to continue supporting communities near its operations through providing business opportunities, training and other services. The company is still struggling to increase investment in its strategic projects – particularly the Timbadola processing plant and the IFLOMA Mozambican investment – to ensure increased revenue in the future. However, with its current board and a full executive team, there has been a gradual shift in the company’s ability to raise funding. The company reported revenue of R920 million for 2020/21 – up by 11 per cent from the previous year despite challenging economic conditions. However, this still represents a loss of R45 million because of high fixed operating expenses. Increasing processing capacity through upgrading the Timbadola processing plant is one of the short‐ to medium‐term activities envisaged to increase revenue. This will further reduce operating costs, particularly for repairs and maintenance.

The company’s liquidity and solvency position is satisfactory as it is not highly indebted. It can raise funding based on the strength of its balance sheet and project viability without support from the fiscus. The company maintained an unqualified audit report for a second consecutive year with a reduced number of findings. Irregular expenditure decreased by 41 per cent, from R183 million in 2019/20 to R107 million in 2020/21.

**5.7 Transnet**

Transnet provides and operates freight transportation services and infrastructure. The company’s operating model is geared towards lowering the cost of logistics in South Africa, promoting a modal shift from road to rail, creating partnerships with the private sector, developing skills, and supporting demand and market access for local producers and suppliers. To sustain and expand its capacity, over a 5‐year period ending in 2024/25, Transnet planned to invest R127.7 billion, 75.7 per cent (R96.7 billion) of which was earmarked to be invested in rail, ports and pipeline

infrastructure across its operating divisions. However, capital expenditure for 2020/21 was reduced by 14 per cent, from R18.6 billion to R15.9 billion, due to the closure of some project sites during the COVID‐19 pandemic. In 2021/22, the company expects capital expenditure to amount to R11.8 billion – 12 per cent less than its original target of R13.5 billion. An estimated 80 per cent of this capital expenditure will be from internally generated funds to reduce reliance on debt.

Revenue decreased from R75.2 billion in 2019/20 to R67.3 billion in 2020/21 due to the negative impact of the COVID‐19 lockdowns. As a result, the entity reported a net loss of R8.4 billion in 2020/21 compared to a profit of R2.9 billion in 2019/20. The poor revenue performance in 2020/21 was exacerbated by the theft of cables and related rail infrastructure, an inability to carry out maintenance operations during lockdowns, global supply chain bottlenecks, and challenges in government and global procurement, all of which disrupted rail operations. However, the situation looks likely to improve. The resolution of contract disputes to acquire locomotives is set to improve the availability of rolling stock and maintenance material, as well as Transnet’s ability to access certain parts from original equipment manufacturers. Security implementation plans are being prioritised within Transnet and in collaboration with state security agencies and related government departments to address the recurring loss of revenue and the unavailability and unreliability of the rail network due to security incidents in freight corridors. The cost of these incidents in 2021/22 is estimated to be more than R2 billion. Some Transnet customers are also open to collaborating to limit the occurrence of security incidents. Through regular engagements and site visits, the department will monitor the implementation of structural reforms to ensure Transnet’s economic recovery and address inefficiencies in the freight transport sector. In June 2021, the president announced the establishment of the Transnet National Ports Authority as an independent subsidiary of Transnet in line with the National Ports Act (2005). New port equipment will be procured with the objective of reversing the negative effects of a lack of maintenance at ports over the years. The company will actively seek private‐sector participation in port and rail freight. This investment in ports, which is envisaged to be in place by the end of 2022/23, is expected to contribute to the modernisation of and improvements in the capacity of the Ngqura container terminal, Durban container terminal pier 2, and Kaalfontein automotive terminal. The cost of the Durban port expansion alone is projected to be more than R100 billion. Private‐sector investment is also expected to contribute to the migration from road to rail and reduce the cost of logistics. The department will collaborate with the Department of Transport to ensure the implementation of the road‐to‐rail strategy.

**6. Committee Observations**

**6.1** The Committee made the following observations:

6.1.1 The Committee welcomed the strategic plan and annual performance plan of the department, but noted with concern the constrained budget of the department to effectively exercise oversight over state-owned companies.

6.1.2 The Committee noted with concern that the Shareholder Management Bill did not feature as a deliverable in 2022/23 financial year, and the absence of such an overarching legislation continues to weaken the ability of the state to direct SOCs in advancing the developmental objectives of government.

6.1.3 The Committee expressed concern that there are still no remuneration standards for executives and boards of state-owned companies.

6.1.4 The Committee noted with concern the lack of favourable legislative and policy environment to enable SOCs to operate efficiently and be competitive in the market.

6.1.5 The Committee expressed concern regarding the ageing infrastructure and the lack of investment in capital equipment and machinery in most state-owned companies, which has affected the productivity of the companies.

6.1.6 The Committee expressed concern over lack of transformation and lack of effort in ensuring that there is improved percentage of local content in goods and services purchased by SOCs.

6.1.7 The Committee noted that whilst there is progress in the appointment of female executives, there is still more that need to be done with regards to empowerment of youth, women and people living with disabilities.

6.1.8 The Committee expressed concern that in some entities such as Denel, there is still a plight of unpaid workers due to financial challenges facing the company.

6.1.9 The Committee has welcomed the call to restructure SOCs by the Department which will focus on Eskom, Transnet, Denel and SAA.

6.1.10 The Committee noted that energy security remains critical for socio-economic growth and will further monitor the restructuring of Eskom into three subsidiaries, namely Generation, Transmission and Distribution, as planned.

6.1.11 The Committee noted the sale of 51% of SAA shares to Takatso Consortium, and will closely monitor the conclusion of the transaction, including ensuring that former employees do receive their due payments.

6.1.12 The Committee noted with concern that the recoveries of monies, assets and intellectual properties from SOCs during the state capture process has been slow.

6.1.13 The Committee welcomed efforts of the Department of Public Enterprises to start the SOE Integrity Risk Unit which will review forensic reports and follow up on with the Special Investigating Unit (SIU) in pursuing those implicated in corruption and looting the SOCs.

6.1.14 The Committee noted with concern the lack of urgency by National Treasury to inject capital in order to rescue Denel. The Committee firmly believes that the country cannot afford to lose the advanced industrial and manufacturing capabilities, hence Denel cannot be liquidated.

**7. Recommendations**

The Committee recommended that the Minister of Public Enterprises should, within the 2022/23 financial year, ensure that the Department of Public Enterprises:

7.1 report to the Committee on the establishment and operationalization of the Presidential SOE Coordinating Council, including the work the council will be doing in the implementation of the recommendations of the 2014 report by the Presidential Review Commission on SOEs. Some of the recommendations were that Government should develop: shareholder management bill, the shareholder model, SOE remuneration standards, etc, to empower the Government in its oversight of SOCs. The Department should report on the progress of the Shareholder Management Bill per quarter.

7.2 consider introducing a comprehensive plan to expand the corporate social investment of SOCs to rural parts of the country.

7.3 consider working with the Department of Trade and Industry and National Treasury in addressing localization strategies. These should include resetting of trade and investment cooperation to stimulate and support small businesses and employment initiatives, reduce barriers to trade in services (which are often labor-intensive) and investments in industrial value chains.

7.4 prioritise the development of programmes with SOC aimed at equipping young people with appropriate skills for the economy to address youth unemployment.

7.5 provide the Committee with shareholder compacts on an annual basis and quarterly reports on how the companies are performing in achieving targets.

7.6 ensure that SOCs accelerate investment and procurement programmes, promote industrialization and support small and medium enterprises that are owned by women, youth and people with disabilities.

7.7 ensure that SOCs find a balance between advancing their commercial and public mandates. They should not over-concentrate on the commercial mandate while neglecting the developmental mandate of transforming the economy and improving the quality of lives of South Africans. The SOCs should have credible empowerment and demographic targets.

7.8 ensure competent executive and board appointments at SOC through conducting of security clearances, integrity checks, and lifestyle audits.

7.9 engage National Treasury, Department of Defense and Military Veterans and Denel to finalise a concrete plan to save Denel. An urgent decision is necessary on this matter.

7.9 collaborate with the Department of Rural Development and Land Reform, in addressing long outstanding issues relating to Safcol land claims and that regular progress reports (twice a year) to the Committee.

7.10 ensure that the liquidation of South African Express Airways is speedily concluded, and that former employees are paid what is due to them.

7.11 develop state aviation strategy that will enable the sustainability of the national carrier with the Department of Transport.

7.12 work with the Departments of Cooperative Governance and Traditional Affairs, and of Rural Development and Land Reform to ensure that the Richtersveld Mining Company and Communal Property Association are properly constituted to facilitate the successful implementation of the of the deed of settlement, and delivery of socio-economic development programmes to the beneficiaries.

7.13 address the financial and governance issues facing the state-owned companies within the Department’s portfolio and provide regular feedback to the Committee.

7.14 work with the Department of Cooperative Governance and Traditional Affairs and other relevant parties to resolve the municipal debt owed to Eskom and provide feedback to the Committee on this process quarterly.

7.15 ensure that all vacant positions are permanently filled within the Department of Public Enterprises by the end of the financial year.

7.16 work closely with National Treasury to ensure that the procurement processes within SOCs are fluid enough to enable the SOCs to respond swiftly to market demand.

7.17 report every quarter to the Committee on progress being made in regard to the above recommendations.

**8. Conclusion**

Having considered the Budget Vote and the Strategic Plan and the Annual Performance Plan of the Department of Public Enterprises, the Committee recommends that the House passes the budget.

Report to be considered.